
LGA Leadership Board: Supplement Agenda

Wednesday 14 September 2016

2.00 pm

Smith Square 1&2, Ground Floor, Local Government House, Smith Square, London, SW1P 3HZ

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Self-sufficient local government: 100% Business Rates Retention

26 September 2016

The Local Government Association (LGA) welcomes the opportunity to respond to the Government's consultation on further business rates retention.

The LGA is here to support, promote and improve local government. We will fight local government's corner and support councils through challenging times by making the case for greater devolution, helping councils tackle their challenges and assisting them to deliver better value for money services.

This response has been agreed by the LGA's Leadership Board, Executive and Business Rates Task and Finish Group.

We support the Government's intention to allow local authorities in England to retain more business rates. This is a wide-ranging reform and we have been working closely with the Government on the details of proposals over the last six months.

We are pleased the Government has recognised the need to ensure existing responsibilities and any new devolved responsibilities will be funded under the new system. At the outset, it is important to emphasise that newly retained business rates must be used to address the projected funding gap facing local government by 2020, before any further responsibilities are considered. Our estimate of this gap amounts to at least £5.3 billion in 2019/20, including a shortfall for adult social care alone of £1.3 billion.

Once existing pressures and responsibilities have been fully funded, we believe the remaining business rates income should also allow councils to be funded for responsibilities linked to driving economic growth in local areas. Handing over responsibility for skills and transport services is the most logical fit as it would allow local areas to close skills gaps, improve public transport and boost local economies.

It is important for the new system to be implemented in a way which balances rewarding councils for growing their local economies but avoids areas less able to generate business rates income suffering as a result.

There are currently almost 300,000 unresolved appeals. The LGA considers that the new retention system should be designed in a way so that appeals do not pose such a risk to authorities as they do at the moment. One way of doing this could be through a national provision for appeals, funded through the central list, so that councils do not have to make their own provision.



Submission



Councils need more flexibility on reliefs. The current system does not incentivise growth and should be reviewed, including mandatory rate relief for charities and empty properties. This would allow authorities to help target incentives in way that would incentivise growth and reduce avoidance.

The LGA welcomes the proposal for directly elected mayors in combined authorities to be given the ability to raise an infrastructure levy but all councils should be given this power to target support in particular areas, industries or above or below a certain rateable value.

Responses to specific questions

Our responses to each of the questions are set out in detail below.

Question 1: Which of these identified grants / responsibilities do you think are the best candidates to be funded from retained business rates?

See comments below on each grant / responsibility identified in the consultation paper:

Revenue Support Grant (RSG)

RSG has been reduced significantly since 2010 and the 2016 Local Government Finance Settlement signals further reductions over the current spending review period. We support transferring RSG to be funded from retained business rates in future, provided that the level of funding is not reduced further.

Rural Services Delivery Grant

As a general unringfenced grant paid to eligible councils, we believe this is suitable for funding from retained business.

Greater London Authority Transport Grant

Although this grant is only paid to the GLA it is clearly linked to economic growth and therefore, we would support this being funded through business rates retention. It sets a precedent that funding for transport functions in other parts of the country should also be funded through business rates retention, and that capital funding can also be included in the list of grants to be transferred.

Public Health Grant

Councils face significant spending reductions to their public health budget up to 2020/21. Public health funding will be cut by 9.7 per cent by 2020/21, (£331 million in cash terms), in addition to the in-year cut of £200 million for 2015/16, announced in November 2015. We agree that Public Health should be funded from business rates in future on the basis that is unringfenced and on the basis of no further reductions in funding.

Submission

Improved Better Care Fund

This funding is specifically for social care but it will be part of the pooled Better Care Fund budget. It is also in an area that has experienced significant growth in demand and this is forecast to continue. Given these factors and the relationship between the additional Better Care Fund monies and the social care council tax precept, this may not be a suitable area for funding from retained business rates..

Independent Living Fund (ILF)

This is the grant to cover the cost of former recipients of the ILF funding who are now the responsibility of local authorities. As an existing unringfenced grant it should be straightforward to transfer to be funded from business rates, providing funding levels are not reduced.

Early Years

This is an area where there are differing views within the sector. Growth in demand is unlikely to be linked to business rates, nevertheless it is an area where councils would like greater control. Some are of the view that the significant changes currently underway in the provision of free childcare, schools funding and 'academisation' and the uncertainty this creates make this an unsuitable area for funding from business rates.

This is a significant sum and there are more arguments in favour of this being funded through business rates retention than in favour of attendance allowance.

Youth Justice

Some of this has been included in the Greater Manchester devolution deal. We would be in favour of this being devolved to all local authorities and that could include funding via business rates.

Local Council tax Support Administration Subsidy and Housing Benefit Pensioner Administration Subsidy

These are areas for which councils already have responsibility and for which some funding is provided by grants from central government. Both are areas that have experienced significant reductions in recent years without sufficient compensating reductions in workloads, and the service is significantly subsidised by councils. Funding these from business rates would be an effective way of baselining funding at a stable level, which the LGA would support.

Attendance Allowance (transfer of equivalent spending power not transfer of welfare benefit)

This could create a significant long term burden that would grow at a rate well in excess of any growth in business rates. The transfer of responsibility for this, and funding this from business rates, is not supported by the LGA.

Question 2: Are there other grants / responsibilities that you consider should be devolved instead of or alongside those identified above?

Local government already faces significant financial pressures up to 2020, and beyond, from the services it already provides. Councils will struggle to provide additional new services if these pressures are not adequately funded. Examples include:

- General inflation / increases in demand (£4.4 billion by 2019/20)
- National Living Wage (£1.56 billion by 2019/20)
- Apprenticeship levy (£207 million per year)
- Reduction in the Education Services Grant (up to £300 million by 2019/20)

When compared against the changes in core spending power made available as part of the 2016/17 final local government finance settlement, this leaves councils with a projected funding gap of £5.3 billion, with adult social care alone facing a shortfall of £1.3 billion even after the social care council tax precept and the additional funding through the Better Care Fund are taken into account. These projections do not reflect pre-existing underfunding of services.

The remaining 50 per cent of business rates funding should be used to address these pressures before consideration is given to new services to be funded through business rates.

Funding for transport infrastructure, as well as skills and employment support are local government's emerging priority areas to be funded from further business rates retention. We would like to engage further with Central Government on exploring and identifying the appropriate skills and employment support programmes.

Highways and Transport, Housing, and Sport

The Government's announcement that Transport for London Capital Grant will be funded through business rates retention sets a clear precedent that funding for highways and transport functions in other parts of the country should also be funded through business rates retention. We believe the following areas should be devolved to local government and funded from business rates:

- Highways Infrastructure investment (see response to question 4)
- Bus Service Operators Grant (see response to question 4)
- Housing investment currently managed by the Homes and Communities Agency
- Funding for sport

Skills and Employment Support

For skills and employment support, it is clear a wider reshaping of the system is required to better drive economic growth in local areas. Local government should have a much greater role in commissioning appropriate skills and employment initiatives for their areas, collaborating with other local authorities where possible. As part of these reforms, the way in which income from business rates is used to fund these responsibilities needs to be considered. However, funding certain aspects of the current system from business rates, without a redesign, would only serve to prolong a fragmented and costly system.

The Government should work with the local government sector to re-shape the whole system for employment welfare and skills support. This work

should then be used to identify existing funding to ensure the criterion of fiscal neutrality is met; the current system is complex. This is a major piece of work and we believe final decisions about use of business rates funding for service responsibilities should not be made until it is concluded. With that as a caveat, we consider that the following areas, or elements of them, should be devolved to local government and funded from business rates:

- Adult Education Budget (see response to Question 4)
- Adult Education Support. In particular the National Careers Service
- Work and Health programme Employment support for claimants of Jobseekers Allowance and Employment and Support allowance
- Discretionary Housing Payments and the Universal element of Universal support

Question 3: Do you have any views on the range of associated budgets that could be pooled at the Combined Authority level?

This is an area that needs careful consideration. The geographical composition of a combined authority areas may not always fit with needs and services provided locally. The impact on, and opportunities for, areas that do not have combined authorities or devolution deals, also needs to be considered. Local Authorities should not be forced into governance structures that are not suitable locally. The default position should be devolution to individual council level unless agreed otherwise locally.

Question 4: Do you have views on whether some or all of the commitments in existing and future deals could be funded through retained business rates?

The funding of devolution deals needs to be kept separate from the funding of services through retained business rates. Services that are transferred to be funded through retained business rates should be done so on a national basis as part of an overall national devolution deal, and this should include the areas identified in the answer to question 2 above. When additional devolution is agreed for individual areas as part of a local devolution deal, this should be funded by an additional transfer of funds from the relevant government department. The effect of funding differential devolution through retained business rates would be to create additional complexities, reduced transparency, and an inequality of funding and opportunity between authority areas, and may reduce the potential of authorities that are not in combined authority areas to develop their business rate base.

Investment funds for devolution deals

As regular funding committed over a long period connected to economic growth, in theory this is suitable for funding from retained business rates in devolution deal areas, which are the only areas where it will apply. However, as stated above, we believe only responsibilities that can be devolved nationally to all similar tier authorities should be funded through business rates retention.

Adult Education Budgets

As an area closely linked to skills and economic growth this is suitable for funding from business rates. This should also apply in areas that do not have a devolution deal, though it needs to be considered as part of a wider reshaping of the whole employment, skills and welfare system.

Transport Capital Grants (and Bus Services Operators Grant)

As an area closely linked to economic infrastructure growth this is suitable for funding from business rates. As all this funding except for the Bus Services Operators grant is already devolved to Councils in the form of grants, this should also apply in areas that do not have a devolution deal.

Local Growth Fund

Although this is closely linked to economic growth, the project nature of the investment means that amounts could vary considerably from year to year and area to area. As such it is not suitable for funding from business rates.

Question 5: Do you agree that we should continue with the new burdens doctrine post- 2020?

It is essential that local government is funded separately by the government for new and the existing burdens that it faces.

Question 6: Do you agree that we should fix reset periods for the system?

The arguments for fixed reset periods are that it gives more predictability and certainty, when compared with the alternative which is that the government should set rules or criterion for triggering a reset – for example the proportion of authorities on the safety net. The emerging view is that fixed reset periods are seen as more predictable.

Question 7: What is the right balance in the system between rewarding growth and redistributing to meet changing need?

The LGA agrees that there has to be a balance between rewarding growth and changes in the needs basis. A partial reset could provide a way forward and would be better than either a frequent full reset or an infrequent full reset alone although the latter might be needed at some point. It is not possible at this stage to say what this balance should be until further modelling work has been undertaken to look at the impact on authorities and on geographical areas. The period of the partial reset should ideally be the same as the funding period for local government. In an era of fixed term five year parliaments this could be five years.

Question 8: Having regard to the balance between rewarding growth and protecting authorities with declining resources, how would you like to see a partial reset work?

A partial reset has two sides – the needs basis and the business rates baseline. The key decision will be how much of the retained growth is kept. This should be set to ensure that authorities which lose over the period of the reset are returned to the baseline at the point of partial reset. The LGA would also like to see options explored where a needs reset is

carried out more frequently than a business rates baseline reset.

Question 9: Is the current system of tariffs and top-ups the right one for redistribution between local authorities?

Some form of mechanism to balance the ability to raise business rates and underlying needs is necessary. The current system of top-ups and tariffs, based on revised needs and business rates baselines, has the advantage that it is fairly well understood. It is also updated in line with the increase in the multiplier each year to provide some protection to top-up authorities.

Question 10: Should we continue to adjust retained incomes for individual local authorities to cancel out the effect of future revaluations?

The justification for adjusting retained income for authorities is that no authority should benefit, or another authority lose out, solely due to the effects of revaluation. The LGA supports this.

The issue of how revaluations are dealt with in the system will become even more important if the government goes ahead with proposals for more frequent revaluations.

It could be further argued that in years when there is a revaluation with an increase in total rateable value a full assessment should be made of pressures, including that on council tax, before deciding on the level of the multiplier. This could also be achieved by allowing more flexibility on the multiplier in non-revaluation years, separately from any infrastructure levy.

Question 11: Should Mayoral Combined Authority areas have the opportunity to be given additional powers and incentives, as set out above?

We support giving Mayoral Combined Authorities the additional powers to have a single top-up and tariff for the area, if that is agreed with the mayor and its constituent authorities.

This flexibility should not be restricted solely to Mayoral Combined Authorities; but that any contiguous group of authorities should be able to make a case for these powers, in a similar way to how pooling works at present, as long as it does not impact on other local authorities.

Question 12: What has your experience been of the tier splits under the current 50% rates retention scheme? What changes would you want to see under 100% rates retention system?

The case for the current 80:20 tier split in two tier areas was to give more incentive to districts in two tier areas, taking into account that counties are responsible for social care spending, which is protected through the system of adjusting top-ups and tariffs in line with the multiplier.

We are aware that representatives of districts and counties are discussing this and it should be set on the basis of discussions and agreement between them.

Similarly any revision to the tier split of 60:40 between London Boroughs and the GLA should be agreed in discussions between the relevant authorities.

Question 13: Do you consider that fire funding should be removed from the business rates retention scheme and what might be the advantages and disadvantages of this approach?

As a result of consultation it was agreed that fire funding would be included in the 50 per cent business rates retention scheme. This ties fire authorities closer to the decisions of billing authorities in their areas and other preceptors such as counties. Fire and rescue authorities may have built business rates growth into their financial plans. Others consider that this exposes fire to a level of risk which services such as the police do not have to bear, and that fire authorities have little influence over the economy locally. A further consideration is that in some areas fire will become the responsibility of the mayoral combined authority, which, any infrastructure levy aside, does not currently receive any share of business rates.

There is a mixed view in the sector and the LGA would look to the views of those of its members which have responsibility for fire services.

Question 14: What are your views on how we could further incentivise growth under a 100% retention scheme? Are there additional incentives for growth that we should consider?

The text above this question in the consultation paper relates to enterprise zones. The LGA agrees that enterprise zones should continue to be treated in the same way as in the current arrangements.

Councils need more flexibility on reliefs. 96 per cent of the value of reliefs is for mandatory rather than discretionary reliefs; with over 90 per cent being accounted for by reliefs for charities (50 per cent, empty premises (26 per cent) and small businesses (14 per cent). This can distort the local market. One reason for the large bill for charity relief is that all charities are treated the same irrespective of size and resources. In addition, this has been subject to abuse through being used as a device for business rates avoidance, for example through exploiting the rules of charitable relief and empty property relief.

Recently, academies and parts of the NHS have made attempts to receive charity relief. Any reliefs from the public sector such as academies and health service, would, as the rules stand at the moment, affect locally retained income, and yet these are largely transfers within the public sector. Such reliefs, if awarded, should be dealt with differently to charities and funded centrally.

There should be a review of business rates relief resulting in making more reliefs discretionary as opposed to mandatory. For example, councils could target empty property relief better if it was made discretionary. If they had appropriate powers, councils could use them to encourage new or continued occupation through either 'carrot' approaches such as new occupation relief or 'stick' strategies such as shortening the duration of

empty property relief to one sector or geographical area in comparison to the current nationally prescribed period.

This review should also consider how reliefs interact with the ability to grow the business rates base in authorities; this could include, for example, areas where many properties in addition, benefit from small business rates relief.

Question 15: Would it be helpful to move some of the 'riskier' hereditaments off local lists? If so, what type of hereditaments should be moved?

The LGA is aware that there are mixed views on this question. Some argue that large hereditaments such as power stations should be moved onto a central list. Others argue that this would remove incentive from councils. If a council goes out to attract or agrees to a power station, for example, they would argue that it should keep the business rate gains.

Question 16: Would you support the idea of introducing area level lists in Combined Authority areas? If so, what type of properties could sit on these lists, and how should income be used? Could this approach work for other authorities?

The LGA has heard mixed views on this question in local government. Some see it as unnecessarily complicated. One way forward could be to test the workings of area level lists with any willing pilots.

Question 17: At what level should risk associated with successful business rates appeals be managed? Do you have a preference for local, area (including Combined Authority), or national level (across all local authorities) management as set out in the options above?

We consider that there should be a national provision for business rates appeals, funded using income from the central list, so that authorities do not have to make provisions individually. The LGA welcomes further proposals from Government in making this idea operational.

Question 18: What would help your local authority better manage risks associated with successful business rates appeals?

There are currently 300,000 appeals outstanding from the 2010 list. The LGA has supported the introduction of the new Check Challenge Appeal system but it is not yet clear what effect this will have on appeals. As part of this reform, there should be tighter deadlines for when appeals have to be lodged.

The LGA considers that the government should devote resources to ensuring that the Valuation Office Agency (VOA) can resolve all outstanding appeals within the 12 months from when the new list comes into effect in April 2017 so that there is not a backlog when the new system is introduced. We also consider that there should be a review of the role and functioning of the VOA, including its line of accountability.

There is a strong case for any outstanding appeals when the system starts to be held at a national level and managed nationally. The LGA argued that this should have happened with outstanding appeals when the 50 per cent retention system was set up.

Question 19: Would pooling risk, including a pool-area safety net, be attractive to local authorities?

The LGA considers that authorities should be given the option of pooling risk as long as it doesn't have a detrimental effect on authorities outside of the pool-area. We would like to see options explored on how this could be done on a voluntary basis.

Question 20: What level of income protection should a system aim to provide? Should this be nationally set, or defined at area levels?

This is a question which needs to be resolved after more consideration of different options such as dealing with risk, and needs to be based on DCLG modelling of the options and interactions between them.

One option which could be explored would be one where the percentage protection is expressed as a proportion of the business rates baseline for top-up authorities and the funding baseline for tariff authorities.

Question 21: What are your views on which authority should be able to reduce the multiplier and how the costs should be met?

The LGA considers that any authority should be given the flexibility to reduce the multiplier.

We think that authorities should be able to target this within their areas; for example, to specific areas or industries or above or below a particular rateable value threshold.

The cost should be borne by the authority that takes the decision and if agreed between authorities arrangements for cost sharing can be put in place locally.

Question 22: What are your views on the interaction between the power to reduce the multiplier and the local discount powers?

We think that authorities should be able to target multiplier reductions within areas; for example, to specific areas or industries or above or below a particular rateable value threshold. This could work alongside existing local discount powers.

Question 23: What are your views on increasing the multiplier after a reduction?

The LGA does not support any form of capping of business rate increases following a decision to reduce the multiplier.

Question 24: Do you have views on the above issues or on any other aspects of the power to reduce the multiplier?

The LGA does not believe that neighbouring authorities should be given any veto on the use of the power to reduce the multiplier, however, consideration needs to be given to the impact of reductions on neighbouring authorities such as the potential for displacement.

Question 25: What are your views on what flexibility levying authorities should have to set a rateable value threshold for the levy?

This is a matter that should be left for local decision.

Question 26: What are your views on how the infrastructure levy should interact with existing BRS powers?

There is currently only one BRS scheme in existence, in Greater London, for financing Crossrail.

We consider that there should be a review of the consent requirements for BRS looking to bring this in line with whatever is agreed for the infrastructure levy.

Consideration needs to be given as to how this power to relates to other powers such as that to raise a Community Infrastructure Levy (CIL).

Question 27: What are your views on the process for obtaining approval for a levy from the LEP?

The LGA has heard views that levies should not be subject to a veto from LEPs as business members may not be representative of business interests locally and are nominated rather than elected. In addition there is complexity when the boundaries between the authority and the LEP are not co-terminous.

We would like to see consultation with relevant LEPs and local business interests, before a levy is approved, but other than that the decision on whether or not to apply a levy should be for the authority. We do not support any wider requirements for businesses to vote before a levy is approved.

Question 28: What are your views on arrangements for the duration and review of levies?

We agree that levies ought to be set for a period to be agreed at the start and subject to regular review. We would not be in favour of statutory prescription as to how long a levy should last.

Question 29: What are your views on how infrastructure should be defined for the purposes of the levy?

The LGA would like to see as wide a definition as possible. For example

this might include housing.

Question 30: What are your views on charging multiple levies, or using a single levy to fund multiple infrastructure projects?

We agree that multiple levies ought to be possible up to an agreed limit.

Question 31: Do you have views on the above issues or on any other aspects of the power to introduce an infrastructure levy?

The LGA considers that the power to introduce an infrastructure levy should be open to all authorities and not only to combined authorities.

Question 32: Do you have any views on how to increase certainty and strengthen local accountability for councils in setting their budgets?

The LGA has long called for multi-year funding settlements for local government and welcomed the principle of the four-year settlement, announced in February this year. It is important that long-term settlements are an integral feature of the reformed business rate retention system including any specific grant funding that will be available and that local authorities retain the opportunity to respond to a draft settlement.

The date of the consultation and final settlements in recent years have been too late to enable effective budget planning and consultation. The consultation on the provisional settlement should take place over the summer preceding the forthcoming financial year, with the final settlement being confirmed after the consultation, in September or October. This would give authorities six months to plan for any changes. This process and timeline should be enshrined in legislation to provide greater certainty and stability for that local authorities.

Question 33: Do you have views on where the balance between national and local accountability should fall, and how best to minimise any overlaps in accountability?

The balance between national and local accountability must be clear from the outset of the scheme to ensure that overlaps in accountability are minimised. As the Government announced last October, the reforms 'will mean that all income from local taxes will go on funding local services'. As such, whilst accountability for maintaining the system should remain with national government, accountability for decisions on how business rates income is spent should rest with local authorities. Therefore grants that are transferred into business rates retention should not be ringfenced. Also they should not be identified by central government within the quantum as 'pots' for funding specific services. This could lead to explicit or implicit ringfencing.

Numerous accountability mechanisms for local government will continue to operate, most importantly through democratically elected councillors. We would expect others, such as the annual accounts and audit process, and regular reporting of budgeting and spending to DCLG, to continue to play an important role. Therefore, parliamentary approval and scrutiny of

spending funded by business rates should be more limited than at present.

Question 34: Do you have views on whether the requirement to prepare a Collection Fund Account should remain in the new system?

It seems sensible that the Collection Fund should continue to be a feature of the new system. However, to aid transparency, the arrangements should be simplified as much as possible. Again, the design of the scheme will determine the details of the final arrangements, but there are several important issues that need to be considered including:

- The way in which risks associated with appeals are dealt with including provisions.
- Differences between the accounting and timing of safety net and levy payments in the General Fund and the Collection Fund
- Accounting for section 31 grants (paid in compensation for temporary changes to reliefs) in the Collection Fund, rather than the General Fund.

Question 35: Do you have views on how the calculation of a balanced budget may be altered to be better aligned with the way local authorities run their business?

Altering the way in which the balanced budget calculation is built up, to simplify the process, would improve transparency and accountability. The calculation must be based on the way in which local authorities actually set their budgets. The key building blocks of the calculation should be council tax, business rates, income from other sources (including government grants), and transfers to or from reserves.

Question 36: Do you have views on how the Business Rates data collection activities may be altered to collect and record information in a more timely and transparent manner?

The main methods for collecting data on forecast and outturn business rates income, the NNDR 1 and NNDR 3 forms, will need to be completely redesigned as part of the introduction of the scheme. Following the implementation of 50 per cent business rates retention, these forms were altered, but not fundamentally redesigned, adding to their complexity.

It is important that new data collection activities should link to accounting arrangements, rather than requiring two different systems. However, it is crucial that any changes to the reporting system improve the functionality of reporting and do not impose additional burdens on local government. Wherever possible forms should be pre-populated with data from central government, to ensure a consistent approach. Forms should be made available to local authorities well in advance of the deadline for completing them, so that they have as much time as possible to produce the information needed. Furthermore, the reporting forms should not be subject to alterations by Government at short notice. Any changes should be made well in advance and consulted on in the usual way through the CLIP-F group.

Fair Funding Review: Call for evidence on Needs and Redistribution

26 September 2016

The Local Government Association (LGA) welcomes the opportunity to respond to the Government's consultation on further business rates retention.

The LGA is here to support, promote and improve local government. We will fight local government's corner and support councils through challenging times by making the case for greater devolution, helping councils tackle their challenges and assisting them to deliver better value for money services.

This response has been agreed by the LGA's Leadership Board, Executive and Business Rates Task and Finish Group.

We are working jointly with the Department for Communities and Local Government on the introduction of further business rates retention and the Fair Funding review. The LGA will continue to encourage an open conversation between the Government and the sector on these issues. The review needs to continue to be as open as possible and listen to all representations.

Above all, the LGA calls on the Government to give due regard to all responses from the sector received on the call for evidence.

- The LGA is clear that simplification is an important goal, but it should not come at an unacceptable cost to fairness.
- The LGA believes that adjustments for council tax raising capacity should remain an important part of the system.
- There needs to be a transition scheme which is underpinned by extra funding from Government for those with the sharpest cuts.

Our response outlines some suggestions for further exploration, mostly informed by representations we have received to date.

Responses to specific questions

Our responses to each of the questions are set out in detail below.

Question 1: What is your view on the balance between simple and complex funding formulae?

Over the years, the system for allocating shares of funding has become ever-more complex, to a point where it is difficult to explain how a local authority's funding levels from the Government are determined. The four-block model is particularly complex and has led to authorities losing



Submission

funding through changes that should not affect them.

A mechanism that is easier to understand is an important aspiration for any new system. This will aid transparency and accountability, but does not necessarily mean that the formulae must be minimalistic. Fairness should be the primary objective of the redistribution system. If a distribution can be achieved through a simpler approach that would be welcome but not if this is at an unacceptable expense to fairness.

Fairness versus simplicity are not the only principles that need to be considered when developing a new needs baseline. Other principles that need to be considered, such as responsiveness to changing needs and predictability also need to be considered.

The Government must examine all the evidence and listen to the views of the sector when identifying cost factors and design principles to take into account as part of the Fair Funding Review.

Question 2: Are there particular services for which a more detailed formula approach is needed, and – if so – what are these services?

We have received representations about adults' and children's social care services as focus points for particular and more detailed service formulae. The Department of Health has not yet published the results of the review of Relative Needs Formulae for personal social services. Potentially the result of this review could form the framework for, or become, the determinant of adult social care relative needs in the new system.

Views have been expressed that other services such as transport and road maintenance could be assessed separately. We also note that the technical working group on needs and redistribution is also considering how to approach environmental and cultural services. However, there are divergent views in the sector on whether service-specific formulae are required; this should be explored with due regard to the balance between simplicity and fairness as outlined above.

Question 3: Should expenditure based regression continue to be used to assess councils' funding needs?

Question 4: What other measures besides councils' spending on services should we consider as a measure of their need to spend?

Question 5: What other statistical techniques besides those mentioned above should be considered for arriving at the formulae for distributing funding?

It is essential that all approaches are considered and assessed on their merits. The LGA does not have firm preferences on detailed statistical techniques involved but would be concerned about increasing levels of non-evidence based judgement used in the formulae.

Representations we have received to date show a mixed opinion on past expenditure-based regression. One opinion is that this could reinforce the current funding pattern as available government funding is a major constraint on spending after sustained reductions. On the other hand, as a modelling technique it is fairly straightforward to undertake and explain.

We would recommend looking at how funding formulae are derived in other

sectors, such as health and police, and in other countries to see if there are alternative approaches and techniques that could be explored.

Question 6: What other considerations should we keep in mind when measuring the relative need of authorities?

One consistent concern that has been highlighted in representations that we have received is the need to make sure that the redistribution mechanisms are future-proof given the expectation that the system may include long term fixed-period resets. This means that the Government needs to consider not only the current profile of relative needs, but also how it is likely to change in the future.

Question 7: What is your view on how we should take into account the growth in local taxes since 2013-14?

The LGA believes that adjustments for council tax raising capacity should remain an important part of the system. We do not have a view on the exact approach with which council tax is taken into account.

In terms of business rates, the LGA agrees that there has to be a balance between rewarding growth and changes in the needs basis. Some sort of partial reset could provide a way forward possibly linked to a full reset over a longer timeframe. It is not possible at this stage to say what this balance should be until further modelling work has been undertaken to look at the impact on authorities.

Question 8: Should we allow step-changes in local authorities' funding following the new needs assessment?

Question 9: If not, what are your views on how we should transition to the new distribution of funding?

We have heard representations about the transitional mechanism sometimes being a more important feature of the redistribution system than the actual formulae that provide 'target shares'. However, it is clear that for some local authorities a single step-change might prove to be too drastic if the review results in very significant swings. For some, it might take a significant amount of time for growth in business rates to compensate for the reduced baseline. There are mixed views on the length of time it should take to reach target shares as measured by the formula, and this should be reviewed once exemplifications of the impact of the review are published.

To minimise the impact of transition, but keep some progression towards the needs baselines, the Government could consider using some funding from the central share to smooth the path for authorities with the sharpest reductions.

Question 10: What are your views on a local government finance system that assessed need and distributed funding at a larger geographical area than the current system – for example, at the Combined Authority level?

Question 11: How should we decide the composition of these areas if we were to introduce such a system?

Question 12: What other considerations would we need to keep in mind if we were to introduce such a system?

It is difficult to see how the whole of England could be grouped in this manner at this point. This could impede collaboration where the process is at an earlier stage and where the governance structures have not yet evolved.

We therefore believe that a single local authority is still the most appropriate geographic unit for assessing need and distributing funding. However, there should be flexibility for areas to opt in to receive funding for the whole area, in a single fund to be distributed within the area, when this is agreed by the relevant local authorities and where there is no impact on neighbouring areas.

Question 13: What behaviours should the reformed local government finance system incentivise?

Question 14: How can we build these incentives in to the assessment of councils' funding needs?

In the immediate period after the implementation of reform, it might be desirable to avoid unnecessary complexity in the relative needs assessment. In addition, behaviours such as collaboration, integration and efficiency are already ingrained in local government because of the scarcity of resources available to deliver services.

Instead of building 'stretch/shrink targets' into relative needs assessments, it might be worth exploring whether certain behaviours could be encouraged or incentives sharpened through other system design features. Local government is always looking for more efficient and joined up ways to deliver services. Various procedural and bureaucratic obstacles to collaboration and integration across public sector boundaries are the biggest disincentive.

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